

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

*Henika District Library*  
*Allegan County, Michigan*  
**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**  
*Year ended December 31, 2005*

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Henika District Library

We have audited the accompanying financial statements of the governmental activities and the major fund of Henika District Library, as of December 31, 2005, and for the year then ended, which collectively comprise the Henika District Library's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Henika District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Henika District Library, as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The budgetary comparison schedule, on page 13, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Henika District Library has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Siegfried Crandall P.C.*

March 17, 2005

## **BASIC FINANCIAL STATEMENTS**

**Henika District Library****STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE**

December 31, 2005

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
<b>ASSETS</b>			
Current assets:			
Cash	\$ 199,729	\$ -	\$ 199,729
Receivables	233,702	-	233,702
Prepaid expenses	<u>-</u>	<u>2,681</u>	<u>2,681</u>
Total current assets	433,431	2,681	436,112
Noncurrent assets - capital assets (net of accumulated depreciation)	<u>-</u>	<u>175,280</u>	<u>175,280</u>
Total assets	<u>\$ 433,431</u>	<u>177,961</u>	<u>611,392</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 2,693	-	2,693
Accrued liabilities	7,925	3,160	11,085
Deferred revenue	<u>233,377</u>	<u>-</u>	<u>233,377</u>
Total liabilities	243,995	<u>3,160</u>	<u>247,155</u>
<b>FUND BALANCE</b>			
Unreserved, undesignated	<u>189,436</u>	<u>(189,436)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 433,431</u>		
<b>NET ASSETS</b>			
Invested in capital assets		175,280	175,280
Unrestricted		<u>188,957</u>	<u>188,957</u>
Total net assets		<u>\$ 364,237</u>	<u>\$ 364,237</u>

Amounts reported in the statement of net assets are different because:

Total fund equity	\$ 189,436
Capital assets	175,280
Prepaid expenses	2,681
Compensated absences	<u>(3,160)</u>
Total net assets	<u>\$ 364,237</u>

See notes to the financial statements

**Henika District Library****STATEMENT OF ACTIVITIES/STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE***Year ended December 31, 2005*

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>Program expenditures/expenses</b>			
Recreation and cultural - library:			
Operations	\$ 277,918	\$ (39,669)	\$ 238,249
Depreciation	-	22,679	22,679
Capital outlay	8,907	(8,907)	-
	<u>286,825</u>	<u>(25,897)</u>	<u>260,928</u>
Total program expenses			
	<u>286,825</u>	<u>(25,897)</u>	<u>260,928</u>
<b>Program revenues</b>			
Charges for services	15,418	-	15,418
Operating grants and contributions	10,720	-	10,720
	<u>26,138</u>	<u>-</u>	<u>26,138</u>
Total program revenues			
	<u>26,138</u>	<u>-</u>	<u>26,138</u>
Net program expenses	<u>(260,687)</u>	<u>25,897</u>	<u>(234,790)</u>
<b>General revenues</b>			
Property taxes	217,511	-	217,511
State grants	6,019	-	6,019
District court penal fines	45,135	-	45,135
Investment return	5,123	-	5,123
	<u>273,788</u>	<u>-</u>	<u>273,788</u>
Total general revenues			
	<u>273,788</u>	<u>-</u>	<u>273,788</u>
<b>Change in fund balance/Net assets</b>	13,101	25,897	38,998
<b>Fund balance/Net assets - beginning</b>	<u>176,335</u>	<u>148,904</u>	<u>325,239</u>
<b>Fund balance/Net assets - ending</b>	<u>\$ 189,436</u>	<u>\$ 174,801</u>	<u>\$ 364,237</u>

*See notes to the financial statements*

***Henika District Library***

**STATEMENT OF ACTIVITIES/STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE (Continued)**

*Year ended December 31, 2005*

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Change in fund balance	\$	13,101
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Amounts reported in the statement of activities are different because:

Capital assets:

Amounts capitalized	49,583
Provision for depreciation	(22,679)

Increase in prepaid expenses	102
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Increase in compensated absences	<u>(1,109)</u>
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Change in net assets	<u>\$</u>	<u>38,998</u>
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*See notes to the financial statements*



**Henika District Library**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Henika District Library (the Library) conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Library. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Library has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Library's financial statements. Also, the Library is not a component unit of any other entity.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Library. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting, as are the nonexpendable trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Henika District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental fund:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

*d) Assets, liabilities, and net assets or equity:*

*i) Bank deposits and investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

*ii) Receivables and payables* - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are considered to be fully collectible.

*iii) Other assets* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

*iv) Capital assets* - Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**Henika District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

*d) Assets, liabilities, and net assets or equity (continued):*

*iv) Capital assets (continued) -*

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture and equipment	3 - 20 years
Materials	5 - 10 years

*v) Deferred revenues* - The Library defers revenue recognition in connection with revenues that are not considered to be available to liquidate liabilities of the current period or resources that have been received, but not yet earned.

*vi) Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**NOTE 3 - CASH:**

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Library's deposits are in accordance with statutory authority. At December 31, 2005, the Library had deposits with a carrying amount of \$199,729.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Library will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and are uncollateralized. At December 31, 2005, \$73,796 of the Library's bank balances of \$199,776 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Library believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

**Henika District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 4 - RECEIVABLES:**

Receivables (all of which are due within one year) as of year end for the Library in the aggregate, are as follows:

Taxes	\$230,886
Intergovernmental	<u>2,816</u>
Net receivables	<u>\$233,702</u>

**NOTE 5 - CAPITAL ASSETS:**

Capital asset activity of the Library for the current year was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Buildings	\$ 24,243	\$ -	\$ -	\$ 24,243
Furniture and equipment	32,548	7,557	-	40,105
Books and a/v material	<u>141,331</u>	<u>42,026</u>	-	<u>183,357</u>
Subtotal	<u>198,122</u>	<u>49,583</u>	-	<u>247,705</u>
Less accumulated depreciation for:				
Buildings	3,308	686	-	3,994
Furniture and equipment	14,633	5,759	-	20,392
Books and a/v material	<u>31,805</u>	<u>16,234</u>	-	<u>48,039</u>
Subtotal	<u>49,746</u>	<u>22,679</u>	-	<u>72,425</u>
Capital assets, net	<u>\$ 148,376</u>	<u>\$ 26,904</u>	<u>\$ -</u>	<u>\$ 175,280</u>

**NOTE 6 - DEFERRED REVENUE:**

Deferred revenue as of year end for the Library in the aggregate, are as follows:

Taxes	\$230,887
State aid	<u>2,490</u>
Net deferred revenue	<u>\$233,377</u>

**Henika District Library**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 7 - DEFINED BENEFIT PENSION PLAN:**

*Plan description:*

The Library's defined benefit pension plan provides retirement, disability, and death benefits to plan members and beneficiaries. The Library's defined benefit pension plan is affiliated with the Municipal Employees' Retirement System of Michigan (MERS), an agent, multiple-employer, public employee retirement system that acts as a common investment and administrative agent for municipalities in Michigan. Public Act 220 of 1996 of the State of Michigan assigns the authority to establish and amend the benefit provisions to the Library. The MERS issues a publicly-available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 N. Canal, Lansing, Michigan 48917, or by calling 1-800-767-6377.

*Funding policy:*

Contribution rates for each participating employer and its covered employees are established, and may be amended, by each participating unit. The contribution rates are determined based on the benefit structure established by each employer. Covered employees are not required to contribute to the plan. Participating employers are required to contribute amounts necessary to finance the coverage of their employees through periodic contributions at actuarially-determined rates. Administrative costs of the plan are financed through investment earnings.

*Annual pension cost:*

For the year ended December 31, 2005, the Library's annual pension cost of \$4,843 for its defined benefit pension plan was equal to the required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included a) an 8% investment rate of return, net of administrative expenses, b) projected salary increases of 4.5% per year, and c) no cost of living adjustments. The actuarial value of the plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized over a closed period of 30 years as a level percentage of payroll.

Three-year trend information is as follows:

<u>Fiscal year ending</u>	<u>Annual pension cost (APC)</u>	<u>Percentage of APC contributed</u>	<u>Net pension obligation</u>
12/31/03	\$ 11,306	100%	\$ -
12/31/04	12,825	100%	-
12/34/05	4,843	100%	-

**NOTE 8 - CLAIMS ARISING FROM RISKS OF LOSS:**

The Library is exposed to various risks of loss due to general liability, property and casualty, and workers' compensation potential claims.

The risks of loss arising from general liability up to \$2,000,000 aggregate, building contents and property damage, and workers' compensation coverage are managed through purchased commercial insurance.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Henika District Library**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - BUDGET AND ACTUAL - General Fund**

Year ended December 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>				
Taxes	\$ 229,756	\$ 229,756	\$ 217,511	\$ (12,245)
State grants	4,000	4,000	6,019	2,019
Charges for service	20,000	20,000	15,418	(4,582)
Fines and forfeitures	35,000	41,685	45,135	3,450
Investment return	2,000	2,000	5,123	3,123
Donations	-	-	10,720	10,720
Total revenues	<u>290,756</u>	<u>297,441</u>	<u>299,926</u>	<u>2,485</u>
<b>EXPENDITURES</b>				
Recreation and cultural:				
Salaries	134,992	134,992	133,095	1,897
Employee benefits	15,000	15,000	14,678	322
Retirement	13,000	13,000	4,843	8,157
Payroll taxes	10,000	10,000	10,485	(485)
Adult and children materials	37,364	41,284	42,025	(741)
Professional services	5,000	4,000	4,928	(928)
Contracted services	35,100	36,000	35,880	120
Supplies	7,300	7,300	7,039	261
Insurance	6,000	6,033	6,033	-
Utilities	5,000	5,000	5,250	(250)
Building and equipment maintenance	3,000	3,000	2,734	266
Communications	2,000	1,500	1,234	266
Education and transportation	4,000	4,250	3,236	1,014
Advertising and publishing	1,500	2,000	1,907	93
Programs	4,500	2,900	2,639	261
Miscellaneous	2,000	2,000	1,912	88
Total recreational and cultural	<u>285,756</u>	<u>288,259</u>	<u>277,918</u>	<u>10,341</u>
Capital outlay	<u>5,000</u>	<u>9,182</u>	<u>8,907</u>	<u>275</u>
Total expenditures	<u>290,756</u>	<u>297,441</u>	<u>286,825</u>	<u>10,616</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	13,101	13,101
<b>FUND BALANCES - BEGINNING</b>	<u>176,335</u>	<u>176,335</u>	<u>176,335</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 176,335</u>	<u>\$ 176,335</u>	<u>\$ 189,436</u>	<u>\$ 13,101</u>

**Henika District Library****SCHEDULE OF FUNDING PROGRESS****Employee Retirement System (Municipal Employees' Retirement System of Michigan)**

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<b>Actuarial valuation date <u>December 31</u></b>	<b>Actuarial value of assets <u>(a)</u></b>	<b>Actuarial accrued liability (AAL) entry age <u>(b)</u></b>	<b>Unfunded AAL (UAAL) <u>(b-a)</u></b>	<b>Funded ratio <u>(a/b)</u></b>	<b>Covered payroll <u>(c)</u></b>	<b>UAL as a percentage of covered payroll <u>((b-a)/c)</u></b>
1998	\$101,604	\$141,535	\$39,931	72%	\$46,352	86%
1999	124,648	156,780	32,132	80%	47,699	67%
2000	144,732	209,113	64,381	69%	56,192	115%
2001	172,693	264,835	92,142	65%	89,324	103%
2002	196,445	291,608	95,163	67%	93,381	102%
2003	219,249	184,373	(34,876)	119%	72,450	0%
2004	247,633	200,864	(46,769)	123%	75,348	0%